



To: Valued City of Lincoln Ratepayer
From: The City of Lincoln, Finance Department
Date: July 13, 2018

Thank you for your recent communication expressing concern about the proposed change in water rates. The purpose of this correspondence is to provide additional information, with the goal of addressing your concerns.

The language of the notice you received is largely dictated by the information the City is required to provide ratepayers pursuant to Proposition 218, which amended the state constitution in 1996. Proposition 218 requires that utility rates may “not exceed the funds required to provide the property related service,” and the charge imposed may not exceed the “cost of service attributable to the parcel.”

As indicated in the Proposition 218 notice, the proposed water rate structure will have two components: (1) a monthly service charge based upon the size of the service meter, and (2) a volumetric charge applied to each 1,000 gallon increment of water delivered. Admittedly, by abandoning the existing tiered rate structure, and implementing a single uniform volumetric rate, customers with low water consumption will experience minor monthly water rate increases. Customers with higher water consumption will have a decrease in the monthly cost for water.

Why is that? Some ratepayers have expressed the opinion that high users should be penalized for their consumption because of historic drought and recent statewide mandates to reduce consumption over the next several years. However, the City is presently constrained from penalizing rate payers. In *Capistrano Taxpayers Assn., Inc. v. City of San Juan Capistrano* (2015) 235 Cal.App.4th 1493, a case rendering an opinion on the interpretation of Proposition 218, the Court discussed how a water agency’s tiered rate structure based upon customer’s volumetric consumption was discriminatory without being able to justify a higher cost to service those tiers. The City of Lincoln was sued on this premise and agreed through a settlement to provide refunds to ratepayers. This is why the City is now advancing a single uniform rate in which the fixed cost proportionately distributes the cost of providing the service, and the variable cost fluctuates based upon how much water the user consumes.

While residential customers using less than 15,000 gallons in a month will see a modest increase in their monthly charges, it is important to note that under the tiered structure in place since 2014, those users’ lower rates were artificially low because they were being subsidized by the higher tiered rate users. In other words, low water consuming ratepayers were paying less for the delivery of water service than they should have been, and the higher water consuming ratepayers were paying more. The proposed rate structure ensures the charges collected across all ratepayers do “not exceed the funds required to provide the property related service,” and do not exceed the “cost of service attributable to the parcel.”

City Hall
600 Sixth Street
Lincoln, CA 95648
(916) 434-2400
www.ci.lincoln.ca.us

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The City of Lincoln is dedicated to keeping rates as low as possible by maintaining lean staffing levels and using reserves when necessary. Even so, the costs to purchase, pump, treat and deliver water, as well as to maintain the infrastructure necessary to deliver water, continue to rise. The cost to provide water service includes: (1) water supply costs from Placer County Water Agency, who provides 90% of the City's annual consumption; (2) operations and maintenance; and (3) repair and rehabilitation of the City's water system infrastructure.

For the past several months, the City conducted an extensive analysis of its water costs, revenues and rates. In addition to hiring an independent water rate consulting firm, the City convened a Citizen's Ad Hoc Water Rate Committee to help staff evaluate a variety of policy-related issues that would be formally proposed to City Council for consideration. Based on high priorities to adopt rates that provided financial stability and affordability, the Ad Hoc Committee recommended a single uniform rate structure to be implemented to all of the City's water customers. With that recommendation, staff also worked with residents to fine tune the data input into the rate model to ensure its affordability and compliance with Proposition 218. The City has held several open and public workshops, informational meetings, and a public hearing to receive input from residents regarding the proposed rate structure.

The City is dedicated to a transparent conversation regarding its utility rates, and hopes this information is helpful to you in understanding the reasons and process leading up to this change in rates.